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SUBJECT: BRUNEI SEEKS U.S. CAPACITY BUILDING SUPPORT IN ECONOMIC DIVERSIFICATION DRIVE

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SUMMARY

¶1. (SBU) Assistant U.S. Trade Representative Barbara Weisel and Lim Jock Hoi, Permanent Secretary at the Ministry of Foreign Affairs and Trade, led their respective delegations for the third meeting of the U.S.-Brunei Trade and Investment Council (TIC) under the U.S.-Brunei Trade and Investment Framework Agreement (TIFA) on May 7. Brunei focused this third TIC meeting on seeking U.S. support for its efforts to diversify its economy away from heavy dependence on oil and gas exports. The GoB sought U.S. training and technical assistance on areas ranging from accounting for trade in services and investment flows, standards conformance and regulation drafting, Customs IPR enforcement, as well as assistance in attracting U.S. investment in Brunei. To encourage bilateral investment, the GoB suggested launching talks toward a double taxation treaty.

¶2. (SBU) AUSTR Weisel urged the GoB to strengthen IPR protections and make government decision-making more efficient and transparent as critical to attracting FDI as well as addressing international concerns from the WTO Trade Policy Review. She urged the GoB to seek to harmonize halal food regulations with other producers to enhance trade in these products and offered technical assistance on managing Brunei's growing aquaculture sector to help exporters meet U.S. health regulations. She also noted a number of trade capacity building programs under the U.S.-ASEAN TIFA which would start once ASEAN has completed its needs assessment and the two sides have agreed on next steps. END SUMMARY.

Strong but Imbalanced Trade

¶3. (U) At the start of the third Trade and Investment Council (TIC) meeting, held May 7 in Bandar Seri Begawan, Brunei shared national statistical data on bilateral trade (ref A) broken down by sector over the last five years which showed total exports by Brunei to the U.S. at BD 815 million and total imports from the U.S. at BD 240 million. (Average exchange rate for 2006 was USD 1 = BD 1.55) AUSTR Barbara Weisel noted that U.S. statistics show a comparable level of imports from Brunei (USD 550m) but a significantly lower level of exports to Brunei (USD 48m). Permanent Secretary for International Trade at the Ministry of Foreign Affairs and Trade Lim Jock Hoi attributed the larger Brunei figure for imports from the U.S. to Brunei statistical methodologies which count imports by country of origin. Many U.S. products are shipped to Brunei via

distributors in Singapore and Hong Kong. These imports may not show in U.S. statistics by their final destination of Brunei.

¶14. (SBU) Lim noted that ASEAN statistical capabilities in measuring intra-ASEAN trade in services and investment flows were weak and that ASEAN as a group sought assistance from its dialogue partners in building capacity. As over fifty percent of Brunei's GDP is services, Lim stated that improving the government's capacity to measure these flows would help Brunei make a better case for attracting foreign direct investment in the service sector.

Economic Diversification - Phasing Out of Textiles

¶15. (SBU) Lim reported that Brunei exported BD 251m in textiles in 2006, under half Brunei's peak year of 2004. With the looming end to the China safeguard textile quotas, Brunei no longer encourages development of textile export capacity. Existing producers that have not closed shops are welcome to continue to operate in Brunei, but the GoB is encouraging these producers to find niche opportunities instead of competing directly with lower cost factories in Vietnam or China. The GoB expects that textile exports will be depressed further once the U.S. completes an FTA with Malaysia, and the industry may phase out completely in three years.

And Not Many Other Non-energy Options

¶16. (SBU) Representatives from the Brunei Economic Development Board (BEDB) and the Ministry of Industry and Primary Resources (MIPR) briefed on efforts by the GoB to diversify the economy away from oil and gas and attract FDI in new sectors. Projects for downstream use

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of Brunei's natural gas are the furthest along. The industrial park at Sungai Liang is now being cleared for development and a Japanese firm (Mitsubishi) has signed a series of agreements to develop a methanol plant reliant on Brunei's natural gas as feed stock. Construction is expected to start this year and the plant would be operational in 18 months. An Australian firm is considering a deal to build a urea - ammonium nitrate plant, also using natural gas feed stock, at the Sungai Liang park. A Malaysian firm is considering developing a biodiesel plant at the park to be fueled with palm oil imported from the region. The GoB has created a special purpose investment authority to speed licensing of Sungai Liang projects, including hoped-for spin offs in manufacturing and services.

¶17. (SBU) Alcoa has an exclusive agreement to build an aluminum smelter at the proposed Pulau Muara Besar island industrial park, but BEDB reps indicated this deal is further away from being realized. The GoB plans to attract development on the companion mega-port and export processing zone project on the island by funding 70 percent of the development costs - dredging, land fill, link-bridge to the mainland - and grant foreign investors full control over operations of the port.

Islamic Banking, the Next Big Thing

¶18. (U) To complement the energy downstream diversification initiatives, the BEDB is also seeking to promote development of four key industrial clusters: Business services (including information technology), Financial services (with a focus on Islamic Banking), transportation and logistics, and tourism.

¶19. (SBU) Lim commented that Islamic Banking and Asset Management were logical niches for Brunei to develop as a complement to Singapore as the region's banking hub. The GoB was seeking to attract major investment banks to open operations and was currently in discussions with Merrill Lynch. The GoB believes it has a good law in place and is consulting annually with the IMF and World Bank. Weisel cautioned that Brunei was not the only country or first to

seek to develop Islamic Banking. She noted that the U.S. Treasury had worked with some other countries to address issues related to establishing Islamic financial services in the U.S.

Limited Coordination on Industrial Development

¶10. (SBU) Lim said that the Sungai Liang Authority was an attempt by the GoB to develop a 'single window' concept to facilitate foreign direct investment on the Bahrain model. Eventually, permit applications would be taken and responded to on-line. Electronic payment would also be developed, but slow progress on key e-government infrastructure efforts would delay implementation. However, in reviewing the multiple agencies that are supposed to encourage FDI - BEDB for big multinational projects and their spin-offs, MIPR for SMEs, agriculture, and tourism - GoB officials acknowledged that key issues such as site approvals and investment incentive authorizations are decided by duplicative committees. Notwithstanding the Sultan's instruction to his government to give "good and fast decisions" on investment projects, administrative approvals can easily get bogged down in a murky bureaucratic process for gaining an overall "Go - No Go" decision from the GoB. Noting intense regional competition for investment, Weisel urged that the GoB work simultaneously on getting its house in order while also getting a coherent message out that Brunei was open for investment.

Aquaculture

¶11. (U) MIPR Fisheries Department officials briefed on the progress made toward developing a shrimp aquaculture industry with the support of a U.S. consulting firm. Under this three year program, Brunei aims to develop a premium large shrimp targeted for the U.S. market. MIPR is also looking at developing off-shore, cage-based fish farms using U.S. technology. USTR conveyed an offer to conduct a one-week seminar by US FDA officials for regulators and industry on how to manage aquaculture programs. The GoB would need to bear the cost of this training program. MIPR officials welcomed the offer as a logical follow up to previous assistance from USG officials and would respond following further internal consultations.

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Cautious on Privatization

¶12. (SBU) Ministry of Development representatives said the GoB would look to the Singapore model and proceed deliberately on privatizing state-owned enterprises. To date, only one firm had been corporatized - the telecom service provider TelBru - and operation of the Muara Container Port had been outsourced via concession. The GoB is developing a master plan and no further action on privatizations would be taken until the plan was completed.

Bilateral Tax Treaty Proposed

¶13. (SBU) The GoB (led by Ministry of Finance) proposed exploring the options for a bilateral double taxation treaty and said Brunei had a model treaty to share. Lim noted that Brunei saw such agreements as important to attracting FDI, and Brunei currently had treaties with China and some European countries and was negotiating with Japan. Weisel said that this idea had not yet been discussed in Washington, but offered to provide a copy of the model agreement the Treasury Department uses.

Agriculture Trade

¶14. (SBU) USTR raised U.S. concerns that onerous certification

requirements limited U.S. firms' access to both the halal food market and agricultural product markets more broadly in Brunei. Weisel urged that the GoB adopt science-based policies for ensuring food safety concerns are addressed efficiently and transparently. Officials from the Ministry of Religious Affairs (MRA) and Ministry of Industry and Primary Resources (MIPR) briefed on Brunei's halal and food safety standards, noting that safety inspection requirements were simpler than the USG's previous understandings. Once a manufacturer had certified an initial shipment, subsequent shipments could be certified without a formal inspection and product testing. On fresh produce, if the exporting country gives a phytosanitary certificate, the Ministry of Agriculture only requires random sampling and not checks on every shipment.

¶15. (SBU) On halal, the GoB was in the process of implementing new laws which would require stringent inspection of food products to receive the right to carry a Brunei Halal logo. New requirements include testing of processed foods at Brunei's labs. Noting that Brunei will lack sufficient lab capacity during an interim period, the GoB was concluding MoUs with organizations in Malaysia, Indonesia, and Singapore, to facilitate halal imports during the transition. Any product with a country of origin halal certification can still be imported under the new rules, but importers bear the burden of proving the halal-ness of the content. MRA and MIPR officials said that Brunei's strict observance of halal has created an opportunity to develop a Brunei Premium Halal brand which they hope to launch formally in August at the International Halal Products Expo. Brunei was working with Australia and Malaysia and would work with other interested nations, including the U.S., to certify products as Brunei Premium Halal. Weisel urged that Brunei work with the U.S. and other halal food producing nations to develop a global halal certification. MRA officials responded that no change was currently envisioned in the rules governing meat products that would allow non-Brunei organizations to certify a product was Brunei halal without the currently required presence of two MRA officers supervising the entire process from slaughter to butchering to final packaging and sealing in shipping containers.

¶16. (U) USTR followed up on ref B demarche request encouraging the GoB to participate in the pilot tropical fruit irradiation program, noting that Brunei fresh fruit not covered by the initial pilot could potentially be added in the future. GoB said it would study the proposal and reply. (Note: DCM had delivered ref B demarche prior to the TIC meeting, but the GoB had not yet responded.)

WTO Review - Transparency Key

¶17. (SBU) In response to USTR questions about Brunei's preparations for the WTO review, Lim said that the GoB was working hard to update key laws governing foreign investment to make them more transparent and speed up decision-making in time for the February trade policy review (TPR). He said the creation of the Sungai Liang Authority

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was an attempt in part to address both issues. Lim added that Brunei wanted to get a World Bank review on the record to establish a reference point from which the GoB could compare itself to its competitors and focus efforts on problem areas. Weisel urged that the GoB be proactive in communicating to other governments its efforts to address transparency issues in advance of the TPR.

Request for Standards Training

¶18. (SBU) Officials from MIPR and the Ministry of Development asked for U.S. capacity-building assistance in standards and conformance in technical regulations. Areas proposed for bringing U.S. speakers or trainers included:

- international construction codes,
- risk assessment as part of good regulatory practices,
- standard templates / formats for trade regulations,
- market surveillance,

- product liability,
- participation in standards developing committees,
- ISO 22000 - Food management systems, and
- ISO 27001 - Information security management systems.

USTR responded that some of the areas suggested are in the US-ASEAN TIFA scope of work and suggested that the GoB follow up with a list of specific areas of interest for USTR to work with other USG agencies to identify appropriate technical training opportunities.

ASEAN Single Window

¶19. (SBU) Brunei briefed on the plans to develop the National Single Window in line with the ASEAN Single Window initiative. ASEAN Single Window operates on two tracks, with the ASEAN-6 aiming for completion in 2008 and CLMV joining by 2012. The GoB welcomed U.S offers of assistance through the ASEAN-US Technical Assistance and Training Facility (TATF) based in the ASEAN Secretariat. The GoB believes it has an advantage of not yet having a Single Window and is looking at Singapore and Malaysia for best practices to implement the ASW template. USTR responded that we are waiting for ASEAN to complete its gap analysis to identify what is most needed, emphasizing that the Single Window is a top priority for creating a single market in ASEAN.

IPR Enforcement Still Lagging

¶20. (SBU) GoB Attorney General's Chambers and Police representatives briefed on efforts to strengthen IPR protections and enforcement capacity. New legislation under development would give police customs-like warrant-less search "ex-officio" authority and stiffen IPR violation penalties. Brunei Customs representatives welcomed past DHS-provided training and requested additional training in identifying counterfeit and IPR-infringing goods. For the foreseeable future, however, Brunei's IPR enforcement will still be complaints-based. Brunei police noted previous efforts to work with the U.S. MPA, but the MPA's failure to follow Brunei's specific procedural requirements were a primary reason for the failure of an attempted anti-piracy raid (ref C).

¶21. (SBU) Weisel replied that IPR enforcement is one of the single most important issues to generating U.S. investment in Brunei. She urged that Brunei develop a national plan to address legal gaps in improve enforcement, including giving police ex-officio seizure and arrest authority for IPR violations. She said the U.S. has an officer assigned to the U.S. Embassy in Bangkok with regional IPR responsibilities who may be available to visit Brunei to look at Brunei's legal and capacity-building issues. Lim responded that the GoB would likely seek Customs capacity building assistance.

US TPA and FTAs

¶22. (SBU) AUSTR Weisel briefed on efforts by the USG to gain a renewal of trade promotion authority (TPA) in Congress. USTR's priority was to secure ratification of the four completed bilateral FTAs (Panama, Peru, Colombia, and Korea) and then work with Congress for renewed broad TPA for the Doha Round and other future FTAs, including with Malaysia. Weisel commented that the Malaysia FTA

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negotiations were making good progress.

P4 as Template for FTAAP

¶23. (SBU) Lim briefed on Brunei's experience since joining the P-4 Free Trade Agreement with Singapore, New Zealand and Chile (see also ref D), noting its suitability as a template for a Free Trade Area of the Asia-Pacific (FTAAP). Although chapters on services and

investment are not complete, negotiations will continue on the margins of the upcoming APEC meeting in Cairns, Australia. Brunei wants to attract other members, with Canada, Malaysia, Hong Kong, Peru and Australia top prospects (discussions with Thailand are on hold) Were Canada and Hong Kong to join, Lim argued, it would aid the APEC FTAAP process giving the larger group a high quality agreement with an open accession process. Lim noted that Peru's accession would be complicated by its FTA with the U.S. Weisel suggested that Cairns would be a good venue to have a further discussion on the P4 and FTAAP.

¶24. (SBU) In other FTA negotiations, Lim said that Brunei would sign a comprehensive bilateral Economic Partnership Agreement with Japan in June which would cover services, investment, energy, and the business environment. The ASEAN-Japan FTA was much less ambitious and would likely be completed by November but not be ready for signing. ASEAN FTAs with Australia and New Zealand were progressing well, but would not be finished until next year. Environmental issues were under discussion but not government procurement. The ASEAN FTA talks with China were focused only on goods and investment issues were much more problematic, and as a result, this agreement was shaping up to be "not a high quality agreement."

Welcome U.S. Environmental Initiatives

¶25. (U) Lim welcomed U.S. environmental initiatives in the region, including the illegal timber trade initiative with Indonesia, noting that Singapore and Malaysia had just signed their own similar agreement. Lim highlighted that demand for illegal timber must be cut off to get logging under control. He added that Brunei saw the Heart of Borneo (HoB) initiative as a watershed effort to work with Malaysia and Indonesia on sustainable development and address the persistent problem of trans-boundary haze.

¶26. (U) MIPR provided a current map of the boundaries under discussion for the 220,000 sq.km or 1/3 of the island of Borneo covered by the HoB initiative. Brunei proposed working boundaries for the HOB include 58% of Brunei's territory, which is about 0.6% of the HoB. The HoB includes 53% of Malaysian Borneo and 57% Indonesian Borneo. The GoB informed that the three countries are studying a proposal to create a National Heritage Park within the HoB, which could be announced during the upcoming BIMP-EAGA Summit. Brunei welcomed U.S. support to international agencies working with the three countries on the HoB. Lim suggested that the U.S. look at supporting a biodiversity study center the GoB is developing in its Tutong District in the HoB area. Ambassador Skodon noted that the State Department is considering sponsoring a visit by forestry officials from Brunei, Malaysia and Indonesia to the U.S. regarding forest conservation efforts across state lines. The U.S suggested that this could be a possible deliverable for the ASEAN-U.S. Summit. Lim also shared that National Geographic would be filming for a production on Brunei's unique rainforest assets and hoped that this focus would increase awareness of ecotourism opportunities in Brunei.

¶27. (U) USTR cleared on this message.

FRIEDMAN